

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Nakano Analyst: Marion Mann DeJong Bill Number: AB 465

Related Bills: See Prior Analysis Telephone: 845-6979 Amended Date: 06/15/2000

Attorney: Patrick Kusiak Sponsor:

**SUBJECT:** Research Expense Credit/Increase Alternative Incremental Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED August 16, 1999, STILL APPLIES.

OTHER - See comments below.

### SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would increase the state alternative incremental research expense credit to 85% of the prior federal credit amount, instead of the existing 80%. Thus, the prior federal percentages of 1.65%, 2.2% and 2.75% would be replaced with 1.40%, 1.87% and 2.34%, respectively.

### SUMMARY OF AMENDMENT

The June 15, 2000, amendments decreased the state alternative incremental research expense credit from 90% to 85% of the prior federal credit amount. The amendments also double joined this bill to SB 1655 to prevent chaptering issues.

Except for the items discussed in this analysis, the department's analyses of the bill as introduced February 16, 1999, and as amended April 12, 1999, June 14, 1999, June 28, 1999, and August 16, 1999, still apply.

### EFFECTIVE DATE

As a tax levy, this bill would become effective immediately upon enactment and would apply to taxable or income years beginning on or after January 1, 2000.

#### Board Position:

<u>      </u> S	<u>      </u> NA	<u>      </u> NP
<u>      </u> SA	<u>      </u> O	<u>      </u> NAR
<u>      </u> N	<u>      </u> OUA	<u>      </u> X PENDING

Legislative Director

Date

Johnnie Lou Rosas

6/28/00

TAX REVENUE ESTIMATE

Revenue losses under the PIT and B&CT laws are estimated to be as follows:

Effective Tax Years After December 31, 1999 Assumed Enactment After June 30, 2000 (in millions)			
2000-01	2001-02	2002-03	2003-04
-\$2	-\$4	-\$5	-\$5

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

TAX REVENUE DISCUSSION

The revenue impact was estimated as follows. First, the revenue loss due to the alternative incremental research expense credit under existing B&CT law was estimated for 1994 using the B&CT sample as well as other corporate financial data. Next, using the 1994 information, the revenue loss due to the higher credit rate (85% of the prior federal rate) proposed by this bill for the alternative incremental research expense credit was estimated. The difference between the loss under current law and the loss under the higher rate was the B&CT revenue impact of the bill based on 1994 data. Future revenue losses were extrapolated using reported research credit claimed by California corporations from 1994 to 1999, and Department of Finance projected annual growth rates of corporate profits. Finally, the revenue impact under PIT was assumed to be equal to 4% of the B&CT impact and was added to the corporate impact for the total impact.

BOARD POSITION

Pending.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a "neutral" position on this bill as introduced February 16, 1999, which would have increased the alternative incremental credit from 80% to 100% of the federal formula. However, the Board has not yet reviewed the amendments, which would increase the credit from 80% to 85% of the federal formula.